



Potential Impact of Teacher Early Retirement Legislation on Education Quality

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Executive Summary

Massachusetts, like the nation, is expected to experience a shortage of teachers over the next several years. The shortage is due to a graying teaching population and a lack of qualified applicants for many disciplines including math, science, special education, bilingual education, and the popular foreign languages. The Department of Education (DOE) estimates that Massachusetts' schools will need to hire 30,000-35,000 new teachers over the next 8 to 10 years. This shortage is likely to worsen as the teaching work force continues to retire, enrollments in high schools rise, class size reduction remains a priority, and teacher testing in Massachusetts makes some teacher candidates ineligible to enter the classroom.

Early retirement legislation for teachers has been included in the Conference Committee FY00 Budget recommendation. We cannot afford to enact this legislation for several reasons:

- This legislation will cause an exodus of veteran teachers that our schools cannot afford, particularly in a tight labor market with a 3 percent unemployment rate.
- The state and the nation are already experiencing a shortage of qualified teacher applicants that is resulting in thousands of Massachusetts children being taught subjects such as math and science by teachers with no experience or degrees in these content areas. An increase in the number of teachers retiring annually will force schools to fill empty classrooms with more minimally qualified or out-of-field teachers. **Students in low income districts will likely suffer the most as more qualified teachers are recruited to teach in wealthier districts causing even higher percentages of minimally qualified teachers to be hired by low income districts. This will exacerbate the failure rate on the MCAS tests.**

- The increased retirement contributions required for new teachers are greater than those required by any other state and will hinder our teacher recruitment efforts. This retirement "benefit" for older teachers will effectively result in a 2-3 percent pay cut for new teachers.
- This legislation unfairly separates teachers from all other group 1 state, county and municipal employees and provides a retirement enhancement that is not available to other group 1 employees such as social workers, government employees or other municipal employees. The pressure to extend the benefit to other groups will be intense.
- Other states have recently taken costly, drastic measures to deal with teacher shortages in their classrooms, including re-employing retired teachers, many of whom retired early. These re-employed teachers often continue receiving pension benefits while also receiving a regular salary for returning to the classroom. The Massachusetts early retirement legislation may set the stage for a replay of these costly and irrational actions here.
- This legislation will cost the state \$50 to \$70 million annually to cover the cost of the enhanced retirement benefits.
- This measure will diminish much of the progress made in funding the unfunded pension liability of the Commonwealth.

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This legislation is often incorrectly referred to as "Rule of 90", the name given to teacher early retirement legislation that was filed in years past. The pending early retirement legislation is more expansive – many more teachers are eligible for enhanced retirement benefits under this proposal than the past Rule of 90 proposal.

Summary of Early Retirement Legislation

The Massachusetts retirement system is based on longevity (years of service) and age. Pension benefits for group 1 public employees, including teachers, are capped at 80% of the average salary for the three consecutive years of highest salary.

Early retirement legislation for teachers has been proposed and included in the Conference Committee FY00 budget. This legislation provides a retirement benefit roughly equivalent to full retirement benefits 2 to 4 years earlier than under current law or about \$30,000 in extra pension benefits over those extra years.¹ Specifically, any teacher with 24 or more years of service (who chooses to participate) will receive an additional 2 percentage points of maximum allowable pension benefits for each year over 24 years of service.

If enacted, all 25,700 new and non-vested teachers (teachers with less than 10 years service) must participate in the program; it is optional for the remaining 54,650 vested teachers. The contribution rates for new hires and non-vested teachers who must participate would increase from 8% or 9% to 11% of their annual salary – effectively a 2% to 3% pay cut in return for the additional pension benefit. Vested teachers could choose to continue under the current retirement system at their current contribution rates. Vested teachers who participate in the early retirement incentive must pay the equivalent of at least 3 years of an 11% pension contribution rate.

For example, under current retirement law a teacher who began working at 23, after 34 years of service would be eligible to receive 61.2% of their salary at retirement. Under this teacher early retirement legislation, the same teacher would be immediately eligible for 80%, the maximum allowable benefit, 4 years earlier than he or she would otherwise be eligible. Assuming an average salary of \$50,000 at retirement, this teacher would receive an extra \$37,600, over the four years of early retirement, in pension benefits for which he or she would have to pay an extra \$9,000² due to the increased contribution rate required to participate – an additional cost of \$28,600 to the pension system. As Figure 1 indicates, many teachers do not wait for the maximum benefit to retire under the current system. Under this legislation, the pension system will pay maximum benefits for some teachers who would have otherwise retired at a lesser pension amount – a true benefits enhancement for the individual teacher but a costly hit to the Commonwealth's pension system.

Figure 1: Analysis of Retiring Teachers October 1, 1996 – September 30, 1998³

| | Cases | Average Age | Average Service | Average Percent Benefit | Average Salary | Average Benefit |
|--------------|-------|-------------|-----------------|-------------------------|----------------|-----------------|
| All Retirees | 2737 | 60.53 | 28.81 | 54% | \$ 47,761 | \$ 26,471 |

Of the 80,349 public school teachers in Massachusetts, 28,346 have 25 or more years of service. Of those, it is likely that many of the 13,285 teachers (17% of our teaching force) with 30 or more years of service would take immediate advantage of this retirement bill.⁴ To make up this loss we would have to hire many more new teachers than usual in the next few years just to try to keep class sizes the same as they are today. Over the next 5 years, 15,061 more teachers will have reached 30 years of service and many of them would also likely take early retirement. In all, over the next 5 years, more than 35% of the Commonwealth's teaching force would stand to gain from early retirement. This is likely to require school districts to replace many of these 28,346 teachers earlier than otherwise necessary in order to maintain the current number of teachers.

¹ Public Employee Retirement Administration Commission (PERAC) and Executive Office for Administration and Finance analysis.

² This individual entered the system at a pension contribution rate of 5%. The individual then must pay the equivalent of three years at an 11% contribution rate (an additional 6% contribution).

³ Massachusetts Teachers' Retirement Board. October 28, 1998 memo to Senate Ways and Means.

⁴ Based on information from the Public Employee Retirement Administration Commission Actuarial Valuation Report as of January 1, 1998 for the Commonwealth's Total Pension Obligation.



This legislation does not only result in a one time hit to our teaching force – it results in an increase in the number of teachers that will retire annually. By shortening the number of years of service necessary for teachers to retire, more teachers will retire each year. For example, if most teachers provide 30 years of service before retiring, and early retirement legislation results in most teachers providing 28 years of service before retiring, the average number of teachers retiring each year will increase by approximately 1/15 or 200 teachers.⁵

Effect on Teacher Recruitment and Retention

This early retirement legislation also threatens our aggressive teacher recruitment efforts. The bill is proposed as a permanent enhancement to a teacher's benefit package. In fact, participation is mandatory for the 25,691 new and non-vested employees. However, only older teachers who opt in now will experience a true 'enhancement'. At the 11% contribution rate required of all new and non-vested employees, the new employees and many of the non-vested employees will be paying for 100% of their own pension benefits – they receive NO benefit from this plan. As Figure 2 illustrates, under this legislation, Massachusetts would have the highest employee retirement contribution rate for teachers among its peers⁶. At a time when the Commonwealth is at nearly full employment with an unemployment rate of 2.9%, it is extremely difficult to recruit qualified, superior candidates for teaching positions. This legislation would hinder our recruitment position with qualified young professionals. We would be at a serious disadvantage recruiting new teachers nationally, undermining the goals of our teacher recruitment program.

Figure 2: Peer State Comparison for Teacher Contributions to Retirement Systems

| STATE | EMPLOYEE CONTRIBUTION |
|-----------------------------|-----------------------|
| MA (under this legislation) | 11.00% |
| CA | 8.00% |
| CO | 8.00% |
| CA | 7.00% |
| GA | 5.00% |
| IL | 8.00% |
| KY | 9.85% |
| LA | 7.50% |
| ME | 7.65% |
| OH | 9.30% |

Source: Massachusetts Teachers' Retirement Board

Annual Number of Teachers Hired and Retired in Massachusetts

Implementation of early retirement legislation will have a profound impact on the rates of hiring and retiring teachers in the Massachusetts public school system. The rate of hiring new teachers has increased substantially over the past few years to meet the demands of class size reduction efforts and to fill classrooms left vacant by retiring teachers and teachers leaving the profession. Approximately 1,500 to 2,000 teachers retire annually.⁷ In addition, the high average age of Massachusetts teachers indicates that the rate of retiring teachers will increase over the next several years requiring more new teachers to be hired.

The number of teachers hired each year in Massachusetts has increased annually since 1991. DOE estimates that Massachusetts' schools will need to hire 30,000-35,000 new teachers over the next 8 to 10 years.⁸ This projection is based on the current trend of increased teacher hiring over the past 7 years and assumes that 3,500 teachers will be hired annually. The estimate does not take into consideration passage of early retirement legislation. As can be seen in Figure 3, 35,000 may be a conservative estimate as over 4,000 teachers were hired in 1998 and the Department estimates that 5,000 new teachers will be hired for the 2000-01 school year.⁹

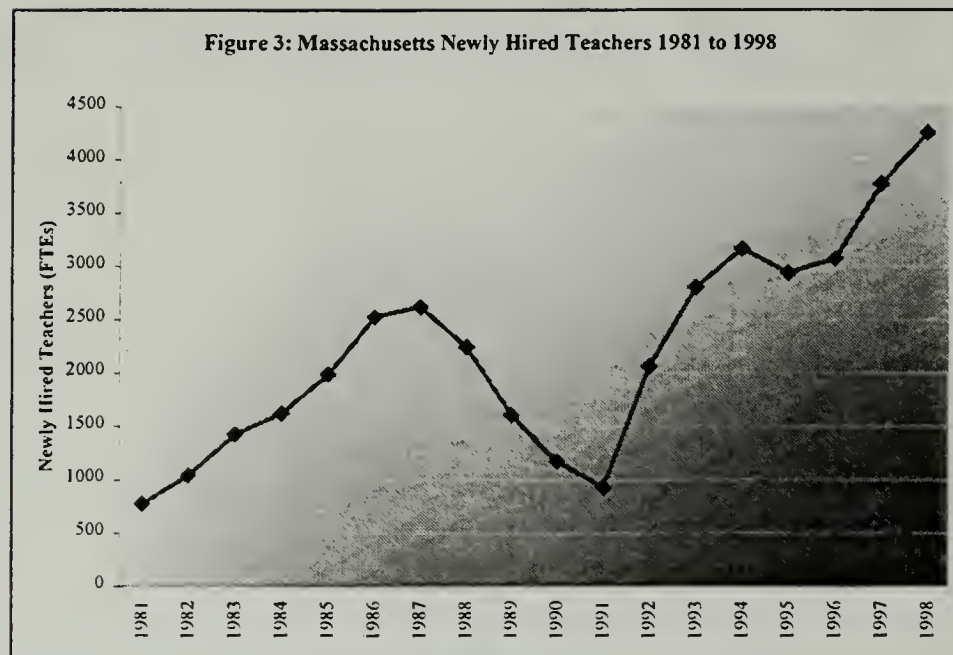
⁵ (80,349 teachers x 2/30) / 28 years.

⁶ States that do not participate in Social Security - California, Colorado, Connecticut, Georgia, Illinois, Kentucky, Louisiana, Maine and Ohio.

⁷ PERAC and Massachusetts Teachers' Retirement Board estimate.

⁸ Ibid.

⁹ Department of Education.



Source: Department of Education

Figure 4 illustrates that the Massachusetts teacher population is heavily weighted with members who are nearing retirement age and have a significant number of years of service. Today, the average age for Massachusetts' teachers is 45.3 years with 16.84 years service.¹⁰ However, 17% of the Massachusetts teacher population has 30 or more years of service and 35% has 25 or more years of service. Further, 40% are age 50 or older.

Figure 4: Age by Service Distribution of Teacher Active Members in State and Boston Teacher Systems 1997-98¹¹

| Present Age | Years of Service | | | | | | | Total |
|-------------|------------------|--------|----------|----------|----------|----------|--------|--------|
| | 0 to 4 | 5 to 9 | 10 to 14 | 15 to 19 | 20 to 24 | 25 to 29 | 30+ | |
| 0-24 | 1,086 | | | | | | | 1,086 |
| 25-29 | 5,566 | 1,201 | 4 | | | | | 6,771 |
| 30-34 | 3,742 | 2,202 | 850 | 5 | | | | 6,799 |
| 35-39 | 1,678 | 2,158 | 2,381 | 497 | | | | 6,714 |
| 40-44 | 1,775 | 1,178 | 2,200 | 2,252 | 1,892 | 1 | | 9,298 |
| 45-49 | 1,566 | 1,316 | 2,173 | 1,667 | 5,450 | 5,652 | 1 | 17,825 |
| 50-54 | 786 | 733 | 1,384 | 813 | 1,772 | 7,275 | 4,786 | 17,549 |
| 55-59 | 275 | 248 | 651 | 485 | 747 | 1,463 | 5,873 | 9,742 |
| 60-64 | 51 | 71 | 218 | 218 | 368 | 514 | 2,196 | 3,636 |
| 65+ | 38 | 21 | 95 | 66 | 124 | 156 | 429 | 929 |
| Total | 16,563 | 9,128 | 9,956 | 6,003 | 10,353 | 15,061 | 13,285 | 80,349 |

Source: Public Employees Retirement Administration Commission

Effect on Classroom Education

Teacher early retirement legislation is designed to create an enhanced retirement benefit for participants and to create space for new teachers to enter the classroom. This type of legislation does, however, also create an incentive for school districts to use the benefits to leverage older, more expensive, more experienced teachers out of the district so that cheaper, less experienced teachers can be hired. Although this can be an effective cost savings measure for the district (subsidized by the state pension system), it could well reduce the quality of education available to the students in the district.

¹⁰ Public Employees Retirement Administration Commission.

¹¹ This data was obtained from the Public Employee Retirement Administration Commission's January 1, 1998 Actuarial Valuation Report for the Commonwealth's Total Pension Obligation. The chart includes active members in both the State Teachers' and Boston Teachers' Retirement systems.

*The Teacher Shortage and Quality of Education – Out-of-field Teaching*

Massachusetts, like the nation, is having difficulty filling math, science, foreign language and special education classrooms with qualified teachers.¹² Thousands of students are in classes taught by teachers with no experience or degree in the subject being taught. Implementation of early retirement legislation will further exacerbate the problem of out-of-field teaching in Massachusetts, ensuring that even more students will be taught some subjects by unqualified teachers.

In 1993-94, 36% of public school teachers in the nation who taught English, a foreign language, mathematics, science, or social studies did not have an undergraduate major or minor in their main assignment fields.¹³ In addition, students in high poverty schools and students in lower learning tracks are even more likely to have out-of-field teachers.¹⁴

In Massachusetts the data reflects similar trends. The inability to fill some teaching slots with teachers who are certified in the content area to be taught, results in requiring teachers to teach outside of their field of study. In 1998-99 the number of Massachusetts teachers who taught out-of-field were as follows:

Figure 5: 1998-99 Massachusetts Out-of-Field Teachers

| Subject | % Out-of-field teachers | Out-of-field Teachers | Total FTE teachers in that subject area | Approximate Number of Students Taught by Out-of-field Teachers |
|----------------|-------------------------|-----------------------|---|--|
| English | 14.5% | 607 | 4,189 | 72,889 |
| Math | 29.2% | 1,149 | 3,936 | 137,917 |
| Science | 13.5% | 513 | 3,800 | 61,560 |
| Social Studies | 15.6% | 400 | 2,561 | 47,942 |

Source: Department of Education

In 1998, 3,605 prospective teachers participated in the Massachusetts teacher certification test. Figure 6 illustrates the percentage of test-takers in each content area.

Figure 6: 1998 MA Teacher Test Participants & Current Teacher Subject Distribution

| CONTENT AREA | % OF TEST-TAKERS WHO TESTED FOR THIS CONTENT AREA IN 1998 | % OF TEACHERS FOR EACH CONTENT AREA IN 1998-99 | DISTRIBUTION DISCREPANCY |
|-----------------|---|--|--------------------------|
| Elementary | 34.0% | 33.0% | 1.0% |
| English | 8.0% | 6.7% | 1.3% |
| Mathematics | 4.0% | 6.3% | -2.3% |
| Biology | 3.0% | 1.3% | 1.7% |
| General Science | 1.0% | 2.9% | -1.9% |
| Chemistry | 0.6% | 0.8% | -0.2% |
| Physics | 0.4% | 0.5% | -0.1% |
| Earth Science | 0.2% | 0.5% | -0.3% |

Source: Department of Education

As Figure 6 illustrates, there is a subject distribution discrepancy between teacher test participants and teachers currently in the classroom. This discrepancy, particularly for the fields of math and science, further widens the gap between the number of qualified teachers needed and the number available to fill such positions. This gap

¹² Massachusetts Department of Education Memorandum, August 10, 1999 from Commissioner Driscoll, re: District Projections of Available Teaching Positions for School Year 2000.

¹³ National Center for Education Statistics, *America's Teachers: Profile of a Profession, 1993-94*, July 1997.

¹⁴ Palmarffy, Tyce *Better Teachers Better Schools, Measuring the Teacher Quality Problem*; (Washington, DC; The Thomas B. Fordham Foundation, July 1999) 26.



will further exacerbate the teacher shortage for some subjects requiring more teachers to teach out-of-field. The extremely shallow labor pool for some subjects could also force school districts to hire minimally qualified individuals to fill class openings.

Implications for the Commonwealth's Pension System

The total cost of this legislation, if all eligible teachers participate, is approximately \$180 million annually. The bill requires new and non-vested teachers to pay an increased contribution rate that will generate about \$110 to \$130 million annually for the foreseeable future. The bill will require the Commonwealth to pay the remaining \$50 to \$70 million annually.¹⁵

The annual state subsidy of \$50 to \$70 million required by this legislation will result in \$800 million to \$1.3 billion in new costs to the state pension system over the life of the current pension funding schedule. This increase will reduce the progress the state has made in fully funding the Commonwealth's pension system. Proponents of this legislation claim that it is affordable given the pension fund's asset performance over the past several years. These proponents suggest that the \$50 to \$70 million annual state subsidy can be covered by asset gains in the pension system. This theory does not consider that gains made by the Commonwealth's pension system should be used to benefit all employees and taxpayers through increased funding of the system and fair, universal pension reforms – not reforms that benefit one subset of a group of employees. Nor does it consider the potential for sub-par earnings performance in the future. Today's pension system earnings are above expectation and act as insurance against lower than expected system earnings in the future.

Who will be hurt most by this legislation?

Implementation of early retirement legislation will result in more classroom openings around the state. However, some districts will have more difficulty recruiting and hiring qualified teachers to fill these openings than other areas. A recent study of the effects of massive class size reduction efforts in California that resulted in the need to greatly increase the number of teachers hired annually, indicates that it is the low income students who suffer the most. The study found that schools with the highest percentages of low income students were unable to attract as many qualified teachers as wealthier districts. **Worse yet, suburban school districts raided low income schools for more experienced teachers.**¹⁶ The study found that, **"the percentage of teachers with minimum education...is highest in schools with higher proportions of low-income students."**¹⁷

Drastic Measures Taken by Other States to Combat Teacher Shortages

Most states around the nation are facing similar teacher shortages as Massachusetts. Significant contributing factors to the shortages are the aging teaching population and subsequent high rate of retirement, early retirement legislation and class size reduction initiatives. The shortages have required drastic, costly solutions in several states.

To combat the shortage of teachers, some states have enacted legislation to re-employ retired teachers without infringing on the retirees' pension benefits. Hawaii, California, Maryland, South Carolina and Texas have all recently enacted legislation to simplify, or allow for rehiring retired teachers. This legislation generally allows the re-employed teacher to continue receiving pension benefits while also collecting a salary.

In January 1997, Governor Benjamin Cayetano of Hawaii stated, "The early-retirement law was a mistake. It is doubtful whether it produced any savings, but it is very clear that too many of our most experienced teachers left the classroom prematurely. Our children need experienced teachers back in the classroom."¹⁸ The Governor introduced legislation to re-employ the teachers who had taken earlier incentives to leave the classroom. This legislation allowed retired teachers who were re-employed for shortage areas to continue receiving their pensions and health benefits, but prohibited them from gaining additional retirement benefits.

¹⁵ Public Employee Retirement Administration Commission

¹⁶ Ross, Randy, "How Class Size Reduction Harms Kids in Poor Neighborhoods", Education Week, May 26, 1999.

¹⁷ CSR Research Consortium, Class Size Reduction in California 1996-98, June 1999, p. 11.

¹⁸ Kennedy Manzo, Kathleen, Education Week on the Web, Hawaii Governor to Seek Bill to Rehire Retired Teachers, January 29, 1997.



During the summer of 1999, California enacted legislation to re-employ teachers that had retired, while allowing the teachers to continue collecting pension benefits. To earn this double salary benefit, the re-employed teachers must fill a new K-3 class position open through intensive class size reduction efforts, or fill a grade 4-12 teaching slot that was left vacant by the previous teacher leaving to teach in a newly created K-3 classroom.

In May 1999, Maryland enacted similar legislation to allow for re-employment of retired teachers without any reduction in retirement compensation. South Carolina also enacted legislation this summer to re-employ retired teachers. In South Carolina the re-employed teachers will receive regular teaching salaries, will not be required to make contributions to the pension system, and will continue to receive pension benefits while they teach. Finally, retired teachers in Texas can be re-employed without implication to their pension benefits, to teach in acute needs areas.

This type of legislative change to re-employ retired teachers is extremely costly. By implementing early retirement legislation, Massachusetts will be setting itself up for similarly costly, irrational legislation to meet the need for replacement teachers.

Conclusion

This early retirement legislation for teachers is costly to our education system and to our pension system. Qualified teachers are in high demand under current hiring conditions. Expanding the pool of open teaching positions will only result in the necessary hiring of unqualified teachers for our children. It is important to allow new teachers into classrooms to share new teaching ideas and techniques. This is happening now – 4,254 new teachers were hired for the last school year to fill approximately 1,500-2,000 slots vacated by retiring teachers and others open through class size reduction efforts and teachers leaving the profession. It is important to give veteran teachers the opportunity to mentor these new teachers to ensure the best quality education for our children.

This legislation will cost the taxpayers of the Commonwealth \$50 to \$70 million a year. It increases the Commonwealth's overall pension liability and compromises the progress we have made in funding our pension system.

In the classroom, the greatest adverse effects of this legislation will be felt in the lowest income districts, by low income students.

Finally, it is unfair and unwise to make this costly retirement enhancement for one subset of group 1 public employees. Other groups will be at the table quickly if this legislation is approved.

